



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	1/22/02	Bill No:	SB 48
Tax:	Property	Author:	McClintock
Board Position:	Support	Related Bills:	

BILL SUMMARY

This bill would increase the \$7,000 homeowners' exemption by an annual inflation factor beginning with the January 1, 2004 property tax lien date.

ANALYSIS

Current Law

Article XIII, Section 3, subdivision (k) of the California Constitution exempts from property tax the first \$7,000 of assessed value of an owner-occupied principal place of residence. This exemption is commonly referred to as the "homeowners' exemption."

The Constitution currently authorizes the Legislature to increase the amount of the homeowners' exemption above \$7,000, provided that:

1. Any increase is funded by increasing the "rate of State taxes" in an amount sufficient to reimburse local governments for property tax revenue loss; and,
2. Benefits to renters, which under current practice are granted through the renters' income tax credit, are increased by a comparable amount.

Section 218 of the Revenue and Taxation Code specifies the eligibility requirements for the exemption and sets the level in the amount of \$7,000 of full cash value.

The State of California makes subvention payments for the property tax revenue loss resulting from the homeowners' exemption. Article XIII, Section 25 requires the Legislature to reimburse, in the same fiscal year, each local government for the revenue lost due to Section 3(k).

Proposed Law

This bill would amend Section 218 of the Revenue and Taxation Code to annually adjust the level of the homeowners' exemption by an inflation factor, beginning January 1, 2004. The inflation factor would be based upon the percentage change in the California Consumer Price Index (CCPI) for all items from June of the prior calendar year to June of the current year. The California Department of Industrial Relations publishes the CCPI.

The Board of Equalization would be required to annually calculate the new exemption amount, using the CCPI, and to inform county assessors of that amount prior to January 1 of each year.

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With respect to income taxes, this bill would similarly adjust the renters credit each year by an inflation factor for each taxable year beginning on or after January 1, 2004. This analysis does not address the income tax provisions of this bill as they are under the jurisdiction of the Franchise Tax Board.

Background

Over the years, numerous proposals have been introduced in the Legislature to increase the amount of the homeowners' exemption. These proposals have used various methods, including indexing the exemption for inflation, increasing the exemption by a flat amount, increasing the exemption for some taxpayers such as first time buyers and seniors, and varying the amount of the exemption based on the year the home was purchased.

The previous legislative proposals are summarized in the following table:

Bill Number	Legislative Session	Author	Type
AB 218	2000-2001	Dutra	Increase for 1 st time homebuyers
AB 2288	1999-2000	Dutra	Increase for 1 st time homebuyers
AB 2158	1999-2000	Strickland	Increase to \$8,750 for senior citizens
SCA 8	1999-2000	Johannessen	Increase to \$20,000; delete renter's credit parity
AB 2060	1997-1998	Granlund	Increase to \$20,000
ACA 43	1997-1998	Granlund	Increase to \$20,000
ACA 5	1991-1992	Elder	Variable according to assessed value
ACA 31	1991-1992	Frizzelle	Index for inflation by California CPI
ACA 47	1991-1992	Jones	25% exemption; no assessed value cap
ACA 3	1989-1990	Elder	Variable depending on year acquired
ACA 9	1989-1990	D. Brown	25% exemption; \$250,000 assessed value cap
ACA 31	1989-1990	Hannigan	15% exemption; \$150,000 assessed value cap
ACA 55	1989-1990	Wright	Increase to \$48,000
ACA 1	1987-1988	Elder	Increased to \$25,000 + indexing for inflation
ACA 25	1987-1988	D. Brown	25% exemption; \$250,000 assessed value cap
AB 2141	1985-1986	Klehs	20% exemption; \$50,000 exemption cap
AB 2496	1985-1986	Cortese	Increased in years with General Fund Reserves
AB 3086	1985-1986	Elder	Variable depending on year acquired
AB 3982	1985-1986	La Follette	Increase for 1 st time home buyers
ACA 49	1985-1986	Elder	Variable depending on year acquired

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the author to annually increase the amount of the exemption to reflect inflation. The author's office notes that, while property values have increased dramatically, the homeowners' exemption has not been increased accordingly.
2. **Amendments.** As introduced, this bill would have increased the homeowners' exemption to \$25,000 and thereafter provided for inflation adjustments. The January 22, 2002 amendments eliminate the one-time increase to \$25,000 and instead only increase the exemption by the annual inflation adjustment. The January 22

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amendments also delay the commencement of the inflation adjustment by one year. The March 5, 2001 amendment added co-authors and made a nonsubstantive change. The February 27, 2001 amendment made changes to the renters' credit provisions of the bill.

3. **The California Consumer Price Index has ranged from 2.171% to 5.278% in the Last Five Years.** The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a fixed market basket of goods and services. The California Department of Industrial Relations computes the California Consumer Price Index (CCPI) from indexes published by the U.S. Department of Labor.
4. **Exemption Amount Unchanged Since the Enactment of Proposition 13.** The homeowners' exemption was first enacted in 1968 in the amount of \$3,000 of full cash value. It was increased in 1974 to its current level of \$7,000. Arguments against increasing the homeowners' exemption have generally centered on the point that Proposition 13, instituted in 1978 after the last increase in the homeowners' exemption, has provided sufficient property tax relief to all property owners, including homeowners.
5. **The \$7,000 Exemption is a Minimum Amount.** The \$7,000 amount specified in the Constitution sets forth the *minimum* amount of the exemption. The Constitution provides that the homeowners' exemption can be statutorily increased, as long as there is an equivalent increase in the amount of the renters' credit (Revenue and Taxation Code Section 17053.5), and any increase is funded by increasing the rate of state taxes sufficiently to reimburse local governments for property tax revenue losses.
6. **5.2 Million Homes Receive the Exemption.** For the 2000-01 tax year, 5,207,251 homeowners were granted the exemption. The total assessed value of property exempt under the homeowners' exemption is \$36,396,322,000.
7. **The State of California Reimburses Local Governments for the Property Tax Revenue Loss Associated with the Exemption.** In 2000-01, \$398,362,000 in subvention payments were made.

COST ESTIMATE

With respect to property taxes, the Board would incur some minor absorbable costs in annually calculating and informing local county assessors of the appropriate exemption amount for each fiscal year.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

Existing property tax law provides for a homeowners' exemption in the amount of \$7,000 of the full value of a "dwelling," as specified. The exemption amount is reduced to \$5,600 on claims that are filed late. The state is required to pay subventions to

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counties for the homeowners' exemptions to offset the resulting county property tax loss.

Over the course of the last few years, the state reimbursement to the counties to cover homeowners' exemptions has grown slightly:

2000-01	\$398,362,000
1999-00	\$397,137,000
1998-99	\$388,829,000
1997-98	\$383,236,000
1996-97	\$383,238,000

The total exempt value of the homeowners' exemption amounted to \$36,396,322,000 on 5,207,251 claims in 2000-01. The average value of the homeowners' exemption in 2000-01 was \$6,990, indicating that only a tiny percentage of all such claims do not currently receive the maximum \$7,000.

Under this bill, the amount of the homeowners' exemption would be computed annually by multiplying the exemption amount for the current lien date by the inflation adjustment factor. This inflation adjustment would be based on the year-to-year increase for June in the California Consumer Price Index (CCPI) for all items. The June year-to-year increases in the CCPI in the last five years have been modest ranging from 2.171 percent in 1997 to 5.287 percent in 2001. Assuming that the inflation adjustment lies in the 2 to 5 percent range, the exemption amount in the first five years can be estimated to grow as follows:

Year	Homeowners' Exemption Amount	
2004-05	\$7,000	x (1.02 to 1.05) = \$7,140 to \$7,350
2005-06	(\$7,140 to \$7,350) x (1.02 to 1.05) = \$7,283 to \$7,718	
2006-07	(\$7,283 to \$7,718) x (1.02 to 1.05) = \$7,429 to \$8,104	
2007-08	(\$7,429 to \$8,104) x (1.02 to 1.05) = \$7,578 to \$8,509	
2008-09	(\$7,578 to \$8,509) x (1.02 to 1.05) = \$7,730 to \$8,934	

Based on these exemption amounts, the increase in the subvention due to the inflation factor adjustment is estimated to be:

Year	Exempt Amount	Increase in Subvention
2004-05	\$7,140 to \$7,350	\$7,967,240 to \$19,918,100
2005-06	\$7,283 to \$7,718	\$16,093,825 to \$40,832,105
2006-07	\$7,429 to \$8,104	\$24,382,941 to \$62,791,810
2007-08	\$7,578 to \$8,509	\$32,837,840 to \$85,849,501
2008-09	\$7,730 to \$8,934	\$41,461,837 to \$110,060,076

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Revenue Summary

The proposed amendments to this bill would increase the state reimbursement for the homeowners' exemptions from \$7.97 to \$19.92 million in 2004-05 and from \$41.46 to \$110.06 million in 2008-09. The increase due to the annual inflation factor adjustment is expected to grow significantly over time due to the compounding effect of the adjustment.

Analysis prepared by:	Rose Marie Kinnee	445-6777	01/24/02
Revenue estimate by:	Aileen Takaha Lee	445-0840	
Contact:	Margaret S. Shedd	322-2376	

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